Annual Report & Accounts

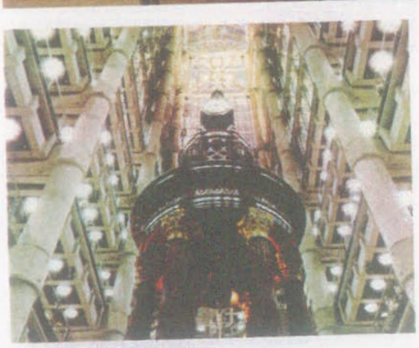
For the year to 31 January 1994

INTERMEDIATE CAPITAL GROUP LIMITED

Intermediate Capital Group (ICG) was formed by its Managing Directors in the United Kingdom in February 1989. It has become the market leader in the provision of intermediate capital for buy-outs in the UK and has established a prominent position in the Western European market. ICG has arranged and underwritten or provided some £350m to 39 companies in seven countries.

Highlights of the Year

1994 saw seven new loans, six successful sales or flotations of existing investments and the creation of ICG's new fund management activity.



New loans included:

McBride is Europe's largest manufacturer of own label household and personal care products. The business was acquired in May 1993 from BP for a total consideration of £272.7 million. ICG underwrote £20 million of the intermediate capital loan.

ICG's role **Co-arranger/Lead Underwriter**

ICG's loan **£10m**

Hygiène Diffusion manufactures and distributes diapers for adult incontinents and for babies. It is a leader in France in the adult incontinence product market with a 20% market share. The company, based near Montpellier, was formed in 1983 and the transaction in October 1993 was a buy-out with the founders reinvesting and continuing to manage the business.

ICG's role **Arranger/Underwriter**

ICG's loan **FFr37m**

McDonnell Information Systems is a UK-based information technology business which provides complete system solutions including hardware, software and service. The company, which has established a prominent position in a number of niche markets, including the public sector, was acquired by an MBO in March 1993.

ICG's role **Arranger/Underwriter**

ICG's loan **£8m**

Midland Independent Newspapers is one of the major regional newspaper publishers in the UK and the leading newspaper publisher in the Midlands. ICG arranged a further loan of £2 million during the year to assist the acquisition of further titles.

ICG's role **Arranger/Underwriter**

ICG's loan, **(1) £6.0m (2) £0.8m**

Multipart Distribution is the UK parts distribution company for Leyland-Daf vans and trucks. The company was acquired by an MBO in July 1993 from the administrative receiver following the failure of Leyland-Daf.

ICG's role **Arranger/Provider**

ICG's Preference Shares **£3.75m**

Exits included:

Arjo, based in Sweden, is a world leader in nursing aids for bathing and lifting elderly and disabled patients. It was acquired in December 1990 when ICG's share of the intermediate capital, which it arranged, was DM32.6 million. This was repaid in full in November 1993 when Arjo was floated on the London and Swedish Stock Exchanges.

Fenchurch is a Lloyd's insurance broker and members' agency. It was acquired from GPG plc in September 1989. ICG arranged and provided the intermediate capital of £8.2 million which was fully repaid on Fenchurch's flotation in November 1993.

ShareLink is one of the UK's largest private client execution-only stockbrokers and is based in Birmingham. Since beginning to trade in 1987, ShareLink has attracted around 500,000 customers. The company was purchased from British Telecom and Albert E Sharp in July 1992. The company was listed on the London Stock Exchange in July 1993.

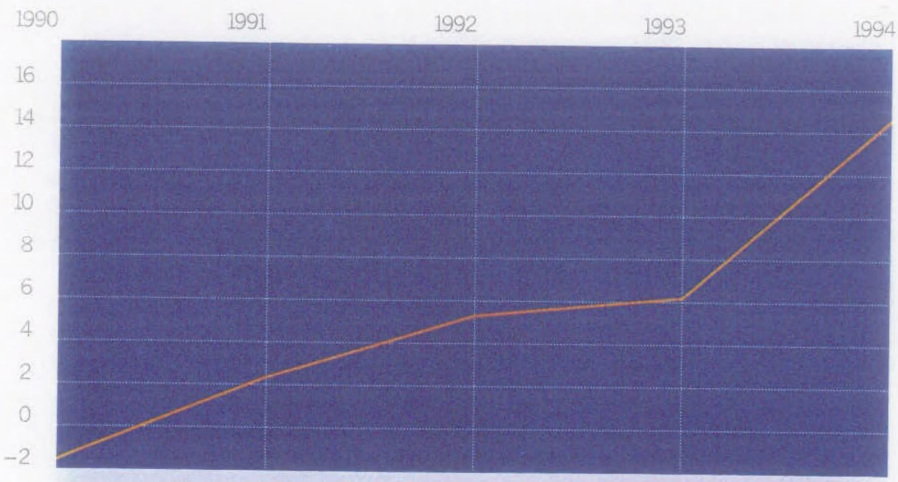
Fund Management:

In January, ICG was awarded £60 million of new funds to manage: £50 million was provided by funds advised by Postel along with a further £10 million coming from Guardian Assurance. ICG will seek to expand its fund management activities in due course.

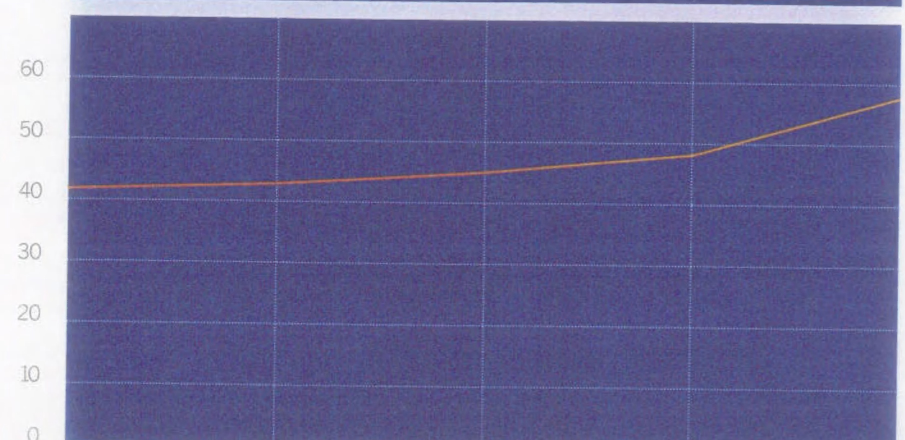
Chairman's Statement

It is a great pleasure in my first year as Chairman of Intermediate Capital Group Limited to be able to report another year of substantial earnings growth for shareholders, with a continuation of the highly satisfactory improving trend of net interest income and return on shareholders' funds.

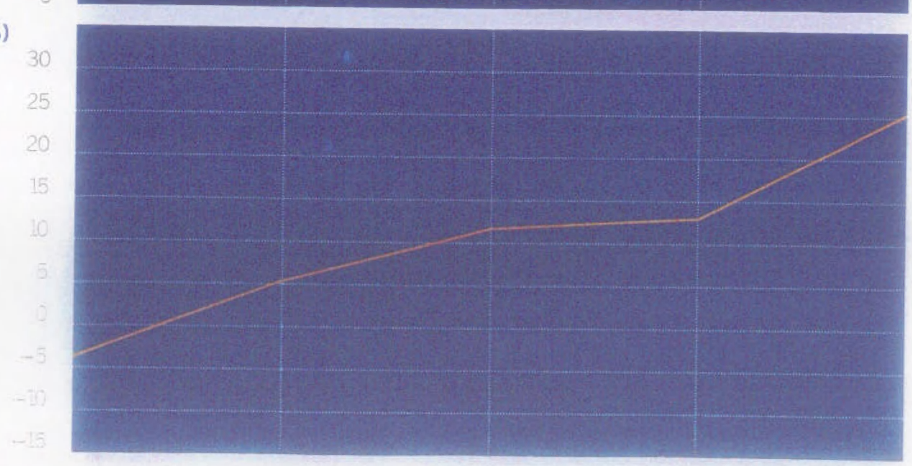
Profit before tax (£m)



Shareholders' funds (£m)
including uncalled amounts
on preference shares



Pretax return on Shareholders' funds (%)



Looking at the results in more detail, pre-tax profits for the year grew by 139% to £14.6 million as ICG continued to benefit from both a high level of net interest income and further capital gains from its warrant portfolio. Shareholders saw an improvement in the pre-tax return on their funds from 12.7% to 25.2%. Including uncalled amounts on preference shares, shareholders' funds increased by £9.6 million to £58.0 million.

ICG had another busy year both in terms of investment activity and realisations. We made six loans to new MBOs and MBIs, and provided acquisition finance to an existing borrower. Loans were made in the UK and continental Europe where the Group continues to expand its business. As at 31 January 1994 ICG had 26 loans spread across 21 industries in four countries in Western Europe. Buy-out transactions continue to be conservatively structured with low levels of borrowings relative to the structures which were usual before 1991.

We also had an extremely good year for exits. Capital gains were made through a combination of trade sales and flotations of six investee companies. In all, ICG realised capital gains of £11.1 million.

Turning to funding, two important developments occurred towards the end of the financial year. In January, we were delighted when ICG was awarded £60 million of new funds to manage: £50 million was provided by funds advised by Postel Investment Management Limited, with a further £10 million coming from Guardian Assurance plc. These are the first third party funds to be managed by ICG: not only do they improve the underwriting capability available to ICG, but they also provide an additional source of profits in the form of fee income. We plan to seek further fund management contracts as and when it is felt that this would be appropriate.

As part of the arrangements with Postel, The BT Pension Scheme and The Post Office Staff Superannuation Scheme both became shareholders of ICG.

In January, a new £155 million revolving credit facility was successfully underwritten, subject to completion of documentation, by a syndicate of first class financial institutions. ICG therefore has a strong funding base to support anticipated growth.

The current year has started well. We have already made two new investments, totalling £13.7 million in France and Italy and a further £3.0 million of capital gains have been realised to date from the flotations of Midland Independent Newspapers and McDonnell Information Systems. Given the strength of ICG's portfolio and its position in the marketplace, we look forward to the coming year with confidence.

The Board would like to thank my predecessor, Norman Ireland, for his considerable contribution to the business over a number of years. I wish him continuing success as Chairman of BTR plc.

Finally, I would like, on behalf of the shareholders, to thank ICG's directors and their staff for their efforts in continuing to develop the business in terms of profits and market position.

Murray Stuart **Chairman**
25 March 1994

Business Review

During the year ICG made seven new loans and realised six investments. In the five years to 31 January 1994 the Group has arranged and underwritten or provided around £350 million of intermediate capital to 39 companies and invested some £225 million, syndicating the balance.

Managing Directors left to right

James Odgers born in 1954, is a graduate of Oxford University and subsequently qualified as a solicitor with Linklaters & Paines for whom he worked for eight years.

Andrew Jackson born in 1948, is a graduate of Cambridge University and subsequently obtained an MBA from the London Business School. Prior to founding ICG, he worked at Chemical Bank for 16 years in London and Switzerland.

Tom Bartlam born in 1947, is a graduate of Cambridge University and qualified as a Chartered Accountant with Price Waterhouse. Prior to founding ICG, he worked for 14 years for Charterhouse Bank in London.

Jean-Loup de Gersigny born in 1954, is a Fellow of the Chartered Insurance Institute and subsequently obtained an MBA from the London Businesss School. Prior to founding ICG, he worked for Chemical Bank in London for seven years.

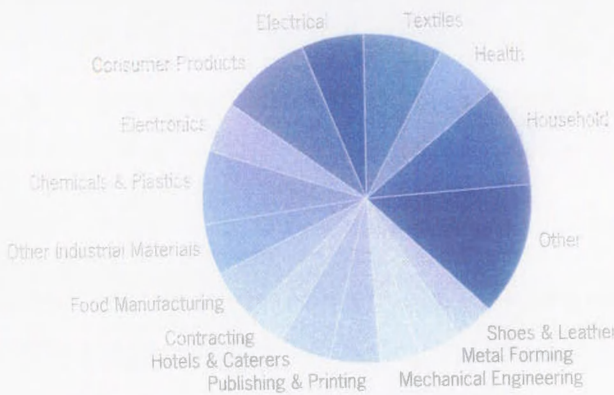
Assistant Directors

Martin Conder Simon Morrell
Andrew Phillips Paul Piper

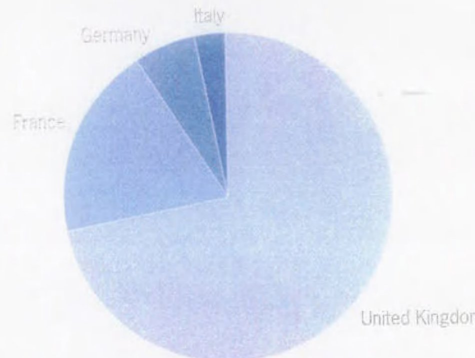
Financial Controller

John Curtis

Portfolio spread by industry



Portfolio spread by country



ICG's institutional shareholders are Banque Paribas, Foreign & Colonial Ventures Limited, James Capel, Lehman Brothers Holdings PLC, Royal Bank Development Capital Limited, The Edinburgh Investment Trust plc, The Industrial Bank of Japan, Limited, The Prudential Assurance Company Limited, The BT Pension Scheme, and The Post Office Staff Superannuation Scheme.

Loans The Group's loans at the year end were well spread by both industry sector and country as can be seen from the charts above. More than 27% of ICG's loans are to companies based in continental Europe and this is an important plank to the Group's policy of risk diversification. The strength of the Group's portfolio is based on its policy of creating and maintaining a balanced, well diversified portfolio.

The seven new loans were as follows:

Company	Transaction	Amount
Apcoa	MBO	Dm 7m
Hygiène Diffusion	MBO	FFr 37m
McBride	MBI	£10m
McDonnell Information Systems	MBO	£8m
Midland Independent Newspapers	Acquisition Finance	£0.8m
Multipart Distribution	MBI	£3.75m
SLD Holdings	MBO	£6m

Exits The year also saw six further exits as follows:

Company	Transaction	Exit route
Arjo	MBO	flotation
Fenchurch	MBO	flotation
Flexpack	MBO	sale
ShareLink	MBO	flotation
Vamp	MBO	sale
Wilkinson Sword	MBO	sale

The Western European market for intermediate capital The market for intermediate capital is well established in both the UK and French buy-out sectors. There is also demand for intermediate capital in many other parts of continental Europe. ICG believes the Western European market will grow as intermediate capital is increasingly seen as a viable alternative to debt and equity financing for the unquoted company sector.

France has developed the most active buy-out market on the Continent and ICG proposes to open a Paris office in the near future. Germany has developed a small buy-out market and ICG's view is that investment opportunities there will increase. A significant level of buy-out activity has developed in several other European countries, particularly in Scandinavia and Italy. ICG believes that the buy-out markets in Spain and Portugal also show signs of development.

While buy-outs and similar transactions remain at the heart of ICG's business, other applications for intermediate capital also arise. The Group has seen a number of small and medium-sized expansion capital and acquisition finance opportunities, some from its existing portfolio of borrowers. ICG expects this area of the business to increase in the future.

Competitive position ICG is the leading arranger and provider of intermediate capital for UK buy-outs. It is, therefore, well positioned to take advantage of the attractive investment opportunities which it expects to arise in its core market over the next few years.

As a prominent provider of intermediate capital across Western Europe, ICG expects that it will continue to see substantial deal flow from the Continent.

Portfolio

At the year end the portfolio of the Group comprised 26 loans aggregating £147 million. These loans were spread across four countries and 21 industry sectors. As well as the new loans referred to under 'Highlights', the portfolio included the following:

Acova is the leading French manufacturer of decorative radiators and towel heaters.

ICG's role **Participant**

ICG's original loan **FFr10m**

Addison is a London-based design company specialising in corporate literature including annual reports, prospectuses and brochures.

ICG's role **Arranger/Provider**

ICG's original loan **£2m**

Apcoa is a Stuttgart-based operator of car parks in Western Europe. The company operates more than 125,000 spaces under more than 190 contracts.

ICG's role **Participant**

ICG's original loan **DM7m**

Brunner Mond is the sole manufacturer of soda ash in the UK with a 90% market share.

ICG's role **Co-arranger/Underwriter**

ICG's original loan **£7.5m**

Enterprise Inns owns a chain of 370 pubs in the Midlands area of the UK.

ICG's role **Co-underwriter**

ICG's original loan **£5m**

Gerflor is one of Europe's leading providers of PVC and parquet flooring to the institutional, construction and retail markets. The company is based in Lyon, France.

ICG's role **Arranger/Underwriter**

ICG's original loan **FFr119m**

Healthcall's primary business is the provision of a doctor deputising service for doctors in the UK.

ICG's role **Arranger/Underwriter**

ICG's original loan **£5.25m**

Instrumentation Laboratories is an Italian company which manufactures and distributes medical instruments, primarily for blood diagnosis.

ICG's role **Co-underwriter**

ICG's original loan **Lit10bn**

Krings Gruppe is a German-based manufacturer and distributor of shoring systems and accessories.

ICG's role **Arranger/Underwriter**

ICG's loan amount undisclosed

MCD is the largest wholesaler of carpets and floor coverings to the independent retail and contract sectors in the UK.

ICG's role **Arranger/Underwriter**

ICG's original loan **£3.75m** loan 2 **£4.5m** loan 3 **£1.5m**

Neopost is one of the leading European manufacturers and distributors of mailroom and postage equipment, such as franking machines.

ICG's role **Participant**

ICG's original loan **FFr35m (FFr14m drawn)**

Northern Feather is a UK manufacturer of natural and synthetic duvets, pillows and other bedlinen.

ICG's role **Arranger/Provider**

ICG's original loan **£2.5m** Guarantee amount **£0.8m**

Nottingham Group is the leading independent wholesaler and distributor of educational equipment to schools, colleges and rehabilitation centres in the UK. ICG's loan has been repaid but ICG retains an equity interest in the company.

ICG's role **Participant**

ICG's original loan **£3.0m**

Pavilion Group Services (originally called Rank Motorway Services) operates eight motorway and three trunk road service areas in the UK

ICG's role **Arranger/Underwriter**

ICG's original loan **£7m**

Portfolio Foods is a collection of snacks and confectionery businesses. Portfolio Foods has made two acquisitions since the original buy-out.

ICG's role **Arranger/Underwriter**

ICG's original loan **£6m** loan 2 **£0.75m** loan 3 **£1m**

SLD Holdings Limited
The group consists of 11 companies of which the largest, SLD Pumps, has a 41% share in the UK pump hire market.

ICG's role **Arranger/Provider**

ICG's original loan **£6m**

Servicetec provides computer maintenance and repair throughout the UK and Netherlands.

ICG's role **Arranger/Provider**

ICG's original loan **£5.4m** loan 2 **£2m**

Sicli Participations is the leading French manufacturer and distributor of fire extinguishers. It also assembles fire engines and other specialist heavy duty vehicles and has operations in fire and crime detection and prevention.

ICG's role **Participant**

ICG's original loan **FFr45m** loan 2 **FFr14m**

Sitex Security Products hires security doors, grilles and windows to secure empty housing to reduce the risk of vandalism, theft or squatting. ICG's loan was repaid during the year but ICG retains an equity interest in the company.

ICG's role **Arranger/Underwriter**

ICG's original loan **£2m**

United Pressings & Fabrications is one of Europe's leading producers of vehicle chassis frames. It also makes steel pressings and fabrications for vehicles, domestic white goods and satellite dishes.

ICG's role **Arranger/Underwriter**

ICG's original loan **£5m**

USM Texon is the world's leading manufacturer of shoe making machinery and a significant manufacturer of materials used in footwear production.

ICG's role **Agent/Participant**

ICG's original loan **£5m**; Preference shares **£1.1m**

Video Arts is a leading provider of training films for staff and management in the UK which use humour to entertain and train.

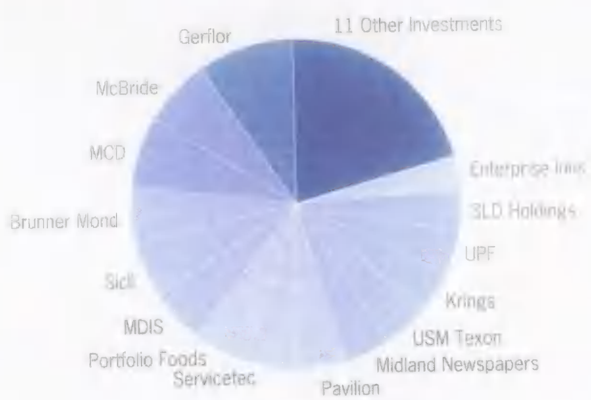
ICG's role **Participant**

ICG's original loan **£1.7m**; Preference shares **£0.1m**

Financial Review

For the financial year ended 31 January 1994 pre-tax profits of the Group amounted to £14.6 million compared to £6.1 million for the previous year. This continues ICG's record of successive annual profits growth. Return on shareholders' funds rose to 25.2% from 12.7% the previous year.

Portfolio spread by size



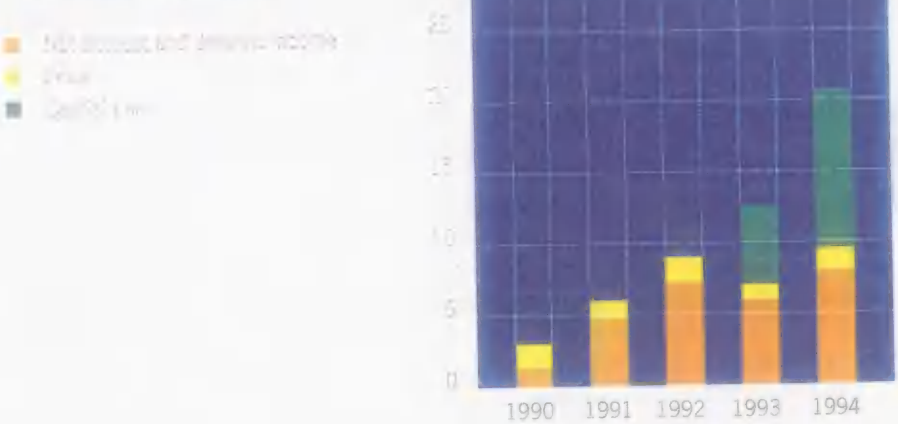
ICG's objective is, through prudent lending, to maintain solid growth in its core net interest and dividend and fee income and to derive ongoing capital gains from its investment portfolio.

Net interest and dividend income Despite the lower level of interest rates that prevailed throughout the year, net interest and dividend income grew by 34% to £7.9 million. The Group's policy is to manage carefully its exposure to interest rate movements.

Fee income Fee income, which historically has been largely dependent on the level of new investment activity, amounted to £1.6 million compared to £1.0 million the previous year. No fee income was attributable for the year to the recently completed arrangements with Postel and Guardian Assurance and such fund management fees will first arise in the year to 31 January 1995.

Capital gains Capital gains for the year were £11.1 million, a significant increase from the £5.5 million in the previous year. The gains for the year ending 31 January 1994 arose from the successful listing of Arjo, Fenchurch and ShareLink and from the trade sales of Flexpack and Value Added Medical Products.

Revenue breakdown (£m)



ICG's loans are normally anticipated to have an economic life of between two and five years and the build up of capital gains over the past two years reflects this cycle. Capital gains from the maturing investment portfolio of ICG are expected to be a significant contributor to the Group's overall revenue.

The chart above shows the make up of Group revenue for the past five years.

Provisions In previous years the Group maintained a general provision against the loan portfolio. Now that the portfolio is more mature and the pattern of realisations is clearer, a general provision is no longer considered necessary. It remains the Group's policy to make provisions against specific assets on a prudent basis.

Loans and investments During the year seven new loans were made totalling £35.5m. Repayments for the 12 months totalled £53.6m which comprised those investments successfully exiting either by a listing or trade sale and one further loan which was prepaid prior to maturity.

The Group's total assets are affected by the timing of new loans and realisations. The fall in debtors reflects the receipt of £11.3 million from the proceeds of an asset realised at the end of the previous year. Total assets as at 31 January 1994 were £153 million and the decrease year on year largely reflects such timing factors.

The Group has holdings of warrants and unquoted and quoted shares which are held in the balance sheet at cost. As set out in Notes 8 and 12 to the accounts, the Directors consider that the aggregate value of the unquoted shares and warrants would currently amount to £27 million and the market value of the quoted shares at the year end was £6.6 million.

Since the balance sheet date, in February 1994 the Group has lent £13.7 million of its own funds to two new borrowers and for the first time invested funds on behalf of Postel and Guardian Assurance alongside the Group's own investments.

Group borrowings The Group borrowings as at 31 January 1994 stood at £102 million which were £31 million lower than as at 31 January 1993. This reduction in Group borrowings reflects the above-mentioned impact of the timing of new loans as well as realisations and the ability of the Group to finance a significant proportion of new loans out of operational cash flow. At the year end senior debt to shareholders' funds, including uncalled capital, stood at 177%. This level of gearing leaves the Group with ample ability to sustain growth in lending.

Syndicated loan facility As ICG's first loan facility of £155 million matures over the course of the next three years a replacement facility of £155 million has been underwritten, subject to completion of documentation, by a syndicate led by National Westminster Bank Plc and The Bank of Scotland.

Return on capital The Group's return on shareholders' funds, including uncalled amounts on preference shares, for the year ending 31 January 1994 was 25.2%, a significant increase from the 12.7% in the previous year. This increase reflects the now mature nature of the portfolio and the underlying level of ongoing capital gains. This improved return on capital was not achieved through increased gearing which in fact decreased over the year.

The portfolio The Group's portfolio of intermediate capital loans is diversified by industry, geography and value. The chart to the left shows a breakdown of the portfolio as at 31 January 1994 by value. In general, the past 12 months have seen borrowers benefit from improved economic conditions in the UK.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 1994.

Principal Activities and Business Review The principal activity of the group is that of providing intermediate capital to companies in the United Kingdom and elsewhere in Western Europe.

The group's profit before taxation was £14,628,000 (1993 – £6,138,000). At 31 January 1994, the group held in its balance sheet a portfolio of listed shares at nominal cost, but with a market value of £6,640,000. The directors consider the state of the group's affairs to be satisfactory.

On 26 January 1994, 23.03% of the ordinary share capital of the company was acquired by the BT Pension Scheme and the Post Office Staff Superannuation Scheme. The Schemes have also entered into an agreement for the company to manage £50m of funds for the purpose of providing intermediate capital. On 27 January 1994 Guardian Assurance plc entered into an agreement for the company to manage £10m of funds.

Corporate Governance Although it is not mandatory for the group to follow the recommendations of the Cadbury Report, the group complies with the majority of the recommendations.

Directors The present membership of the Board, is as set out on page 28. Mr Letley resigned from the Board on 16 June 1993 and was replaced by Mr Attwood. Mr Cox resigned from the Board on 26 January 1994 and was replaced by Mr McGrane. Mr Burnside resigned from the Board on 30 June 1993 and was replaced by Mr de Fries who in turn resigned on 26 January 1994. Mr Padgett was appointed to the Board on 26 January 1994. Mr Ireland resigned as chairman on 19 May 1993 and Mr Stuart was appointed chairman on 1 September 1993. The remainder of the Directors shown on page 28 served throughout the year.

None of the directors had any interests, as defined by the Companies Act, in the shares of the company at 31 January 1994 except as follows:

Number of 2.5p 'A' ordinary shares	1994 Voting	1994 Non-voting	1993 Voting	1993 Non-voting
T H Bartlam	90,000	801,000	90,000	801,000
J-L Brousse de Gersigny	90,000	801,000	90,000	801,000
A D Jackson	90,000	801,000	90,000	801,000
J R B Odgers	90,000	801,000	90,000	801,000

The directors had no interests in the shares of Intermediate Capital Investments Limited or any other subsidiary company.

Dividend A preference dividend at the rate of 10% (net) (1993 – 7% (net)) will be paid to holders of the preference shares on 30 April 1994. In accordance with the current dividend policy of the company, the directors do not recommend the payment of an ordinary dividend.

Fixed Assets Movement in fixed assets are shown in Note 10 to the accounts.

Auditors A resolution for the reappointment of the current auditors, Touche Ross & Co., will be proposed at the forthcoming Annual General Meeting.

By Order of the Board
J R B Odgers
Secretary

[illegible] 1994

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:
– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– state whether applicable accounting standards have been followed;
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for ensuring that proper accounting records are kept, safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report (to the Members of Intermediate Capital Group Limited)

We have audited the financial statements on pages 14 to 27 which have been prepared under the accounting policies set out on pages 18 and 19.

Respective responsibilities of Directors and Auditors As described on this page, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 January 1994 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Touche Ross & Co.
Chartered Accountants and Registered Auditors
Peterborough Court
133 Fleet Street
London EC4

25 March 1994

Consolidated Profit and Loss Account (for the year ended 31 January 1994)

	Note	1994 (£000)	1993 (£000)
Interest and dividend income		18,440	18,317
Gain on disposals		11,056	5,509
Fee and other operating income		1,619	1,049
		31,115	24,875
Administrative expenses	3	(2,805)	(1,784)
		28,310	23,091
Interest payable and similar charges	4	(10,483)	(12,379)
Profit before provisions and taxation		17,827	10,712
Provisions	5	(3,199)	(4,574)
Profit on ordinary activities before taxation		14,628	6,138
Tax on profit on ordinary activities	6	(3,254)	(1,796)
Profit on ordinary activities after taxation		11,374	4,342
Dividend proposed	9	(1,800)	(1,260)
Retained profit transferred to reserves	16	9,574	3,082

All activities represent continuing operations. There are no other recognised gains or losses or movements in shareholders' funds other than those shown in the profit and loss account. The historical cost profit before tax and retained profit for the year would have been £1,417,000 higher (1993 – £1,417,000 lower) had Note 1(f) followed the historical cost convention.

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet (31 January 1994)

		1994 (£000)	1993 (£000)
Fixed assets			
Tangible assets	[illegible]	193	219
Loans	[illegible]	138,542	145,677
Investments	12	5,791	3,938
Current assets			
Debtors	13	6,873	17,216
Loans and investments	14	—	8,243
Cash at bank and in hand		1,646	52
		8,519	25,511
Total assets		153,045	175,345
Capital and reserves			
Called up share capital	15	20,000	20,000
Share premium account		12,550	12,550
Profit and loss account	16	13,403	3,829
		45,953	36,379
Creditors: amounts falling due within one year	17	6,664	5,347
Creditors: amounts falling due after more than one year	18	99,958	134,390
Provisions for liabilities and charges	19	470	(771)
Total capital and liabilities		153,045	175,345

These financial statements were approved by the Board of Directors on 25 March 1994.

Signed on behalf of the Board of Directors by:

C M Stuart

A D Jackson

The accompanying notes are an integral part of these financial statements.

Balance Sheet (31 January 1994)

	Note	1994 (£000)	1993 (£000)
Fixed assets			
Tangible assets	10	193	219
Loans	11	134,931	145,800
Investments	12	10,443	9,788
Current assets			
Debtors	13	4,423	15,856
Loans and investments	14	—	8,243
Cash at bank and in hand		1,622	36
		6,045	24,135
Total assets		151,612	179,942
Capital and reserves			
Called up share capital	15	20,000	20,000
Share premium account		12,550	12,550
Profit and loss account	16	12,440	8,053
		44,990	40,603
Creditors: amounts falling due within one year	17	6,664	4,949
Creditors: amounts falling due after more than one year	18	99,958	134,390
Total capital and liabilities		151,612	179,942

These financial statements were approved by the Board of Directors on 25 March 1994.

Signed on behalf of the Board of Directors by:

C M Stuart

A D Jackson

The accompanying notes are an integral part of these financial statements.

Consolidated Cash Flow Statement (for the year ended 31 January 1994)

	Note	1994 (£000)	1993 (£000)*
Operating activities			
Interest and dividends received		18,637	16,971
Gain on disposals		12,721	2,954
Fee and other operating income		1,742	885
Administrative expenses		(2,884)	(2,453)
		30,216	18,357
Interest paid		(10,486)	(12,681)
Net cash inflow from operating activities	20	19,730	5,676
Returns on investments and servicing of finance			
Dividends paid		(1,260)	(900)
Taxation			
UK taxation		(3,124)	(1,643)
Overseas taxation		(161)	(70)
		(3,285)	(1,713)
Investing activities			
Purchase of loans and investments		(39,008)	(29,227)
Purchase of loans for syndication		1,623	7,453
Realisation of loans		43,887	20,514
Prior year realisation of loan		7,653	—
		14,155	(1,260)
Purchase of fixed assets		(29)	(196)
		14,126	(1,456)
Net cash inflow before financing		29,311	1,607
Financing			
Decrease in bank loans	22	(30,297)	(207)
(Decrease)/increase in cash and cash equivalents	21	(986)	1,400

The accompanying notes are an integral part of these financial statements.

1 **Accounting policies** The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

a Basis of accounting The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets as described below.

b Basis of consolidation The group financial statements incorporate the financial statements of the company and all its subsidiaries.

c Revenues and expenses Underwriting fees and other arrangement fees are included in the profit and loss account on the date at which they are payable or receivable. Amounts receivable at the repayment of a loan which exceed the original cost are taken to profit and loss account over the full life of the loan. Such amounts, less tax, are considered to be non-distributable until such time as repayment occurs. Recurring fees, interest income, interest expense and overheads are accounted for on the accruals basis.

Dividend income is accounted for in the year in which the income is received.

The gain or loss arising on the disposal of a loan or an investment is recognised at the date on which the investment is sold. Any gain or loss is stated net of associated selling expenses.

d Tangible fixed assets Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:
Furniture and equipment – 20% per annum
Leasehold premises – Over the term of the lease.

e Loans and investments Loans and investments are shown at cost less provisions plus the accrual of amounts receivable at the repayment of a loan which exceed the original cost. The specific provisioning policy of the company is to make a provision against any loan or investment as and when the directors consider that the carrying value is wholly or partially impaired.

In its earlier years of operation, it was the company's practice to maintain a general provision at an appropriate level of the total carrying value of loans and investments after specific provisions having regard to the total value of the portfolio of loans and investments including listed and unlisted shares and warrants. This practice ceased in the year ended 31 January 1994 in recognition of the maturing of the portfolio and the existing general provision was released to profit and loss account.

f Loans and investments held as current assets Listed investments held as current assets are marked to market value and any gain or loss arising taken to profit and loss account. Other loans and investments are held at the lower of cost and net realisable value.

g Taxation Corporation tax is provided on the taxable profits of the company at the current rate.

h Deferred taxation Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

i **Pension costs** It is the policy of the company to provide for pension liabilities by payments to insurance companies or to individuals for employees' private pension plans. The amount charged to the profit and loss account represents a percentage of the current payroll cost paid to defined contribution schemes.

j **Foreign exchange** Transactions denominated in foreign currencies are recorded at actual exchange rates ruling at the dates of the transactions, or where appropriate, at the rate of exchange in related forward exchange contracts.

Monetary assets and liabilities denominated in foreign currencies at the year end are translated into sterling at the rates of exchange ruling at that date, or where appropriate, at the rate of exchange in related forward contracts. Any gain or loss arising from a change of exchange rates subsequent to the dates of the transactions is included as an exchange gain or loss in the profit and loss account.

k **Value added tax** It is the company's policy to write off irrecoverable VAT on items of expenditure relating to the profit and loss account. VAT on tangible fixed assets is capitalised and written off over a similar period to the asset to which it relates.

2 **Profit of parent company** As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's retained profit for the financial year amounted to £4,387,000 (1993 – £7,773,000).

3 **Administrative expenses**

	1994 (£000)	1993 (£000)
Administrative expenses include:		
Directors' remuneration	763	744
Depreciation	55	34
Auditors' remuneration		
Audit	44	23
Other services	35	102

Administrative expenses include certain non-recurring costs of £542,000 (1993 – £0) in respect of expenses incurred as part of fundraising activities.

4 **Interest payable and similar charges**

	1994 (£000)	1993 (£000)
Bank loans and overdrafts repayable within five years	10,483	12,379

5 **Provisions**

	1994 (£000)	1993 (£000)
Provisions against loans and investments		
Specific provision	7,593	4,700
General provision	(4,627)	(126)
	2,966	4,574
Provisions against guarantees	233	—
	3,199	4,574

1992
1533
1994
457

As explained in Note 1(e) the practice of maintaining a general provision ceased during the year in recognition of the maturing of the portfolio and the general provision was released to profit and loss account.

6 Tax on profit on ordinary activities

	1994 (£000)	1993 (£000)
Corporation tax on the profits of the year at 33% (1993 – 33%)	1,837	4,413
Tax on franked investment income	175	67
Deferred taxation	849	(2,658)
	2,861	1,822
Adjustment in respect of prior years	393	(26)
	3,254	1,796

The taxation charge is low due to the effect of the write-back of the general provision.

7 Information regarding Directors and employees

	1994 (£000)	1993 (£000)
Directors' emoluments:		
Fees	99	102
Other emoluments	664	642
	763	744

Remuneration of Chairman		
To 19 May 1993	8	34
From 1 September 1993	17	—

Remuneration of highest paid Director	143	138

Scale of Directors' remuneration (excluding chairman and highest paid Director)	1994 No	1993 No
£0 – £5,000	8	8
£5,001 – £10,000	5	5
£135,001 – £140,000	—	3
£140,001 – £145,000	3	—

Employee costs during the year, including Directors	1994 (£000)	1993 (£000)
Wages and salaries	1,075	1,019
Social Security costs	110	101
Pension costs	129	122
	1,314	1,242

	1994 No	[illegible]
Average number of employees	14	[illegible]

8 **Valuation of warrants** The group has warrants to subscribe for shares in a number of borrowers. These warrants are not marketable instruments and can generally only be realised by the group when the investment is realised. These warrants, along with unlisted equity shares, are held in the financial statements at nominal cost. The directors consider that a reasonable valuation of these shares and warrants, representing the group's interests in the equity value of those companies realisable over a period of time, would currently amount to £27,000,000 before tax. This valuation is based on the borrowers' current pro forma earnings multiplied by the appropriate price/earnings ratio, to which an appropriate discount has been applied by reference to the guidelines of the British Venture Capital Association (BVCA). No discount has been applied to the value of warrants which, since the year end, have been exercised immediately prior to flotation of the borrower.

9 **Dividend proposed** In accordance with its Articles of Association, the company will pay a dividend on its preference shares in the net amount of 10% (12.5% gross) (1993 – 7% (9.03% gross)).

10 **Tangible fixed assets**

	Furniture & equipment £000	Leasehold premises £000	Total £000
Group and company			
Cost			
At 1 February 1993	160	149	309
Additions	17	12	29
At 31 January 1994	177	161	338
Depreciation			
At 1 February 1993	82	8	90
Charge for the year	33	22	55
At 31 January 1994	115	30	145
Net Book Value			
At 31 January 1994	62	131	193
At 31 January 1993	78	141	219

11 **Loans**

	Group 1994 £000	Group 1993 £000	Company 1994 £000	Company 1993 £000
Loans to group companies	–	–	16,735	29,462
Other loans:				
Loans	141,435	154,883	119,562	119,935
Less: General provision	–	(4,506)	–	(3,597)
Specific provision	(2,893)	(4,700)	(1,366)	–
	138,542	145,677	118,196	116,338
Total	138,542	145,677	134,931	145,800

11 **Loans (continued)** Additional information in respect of loans for which there have been movements during the year are as follows:

	Group £000	Company £000
Loans to group companies		
Balance at 1 February 1993	–	29,462
Additional loans	–	4,598
Repayments	–	(16,540)
Currency movement on foreign loans	–	(785)
Balance at 31 January 1994	–	16,735
Other loans at cost		
Balance at 1 February 1993	154,883	119,935
Net additions	42,474	42,504
Realisations	(53,567)	(40,198)
Amortised discount and capitalised interest	2,101	1,208
Currency movement on foreign loans	(4,456)	(3,887)
Balance at 31 January 1994	141,435	119,562
General provision		
Balance at 1 February 1993	4,506	3,597
Released to profit and loss account	(4,506)	(3,597)
Balance at 31 January 1994	–	–
Specific provision		
Balance at 1 February 1993	4,700	–
Provisions made during the year	7,593	1,366
Loans repaid	(9,400)	–
Balance at 31 January 1994	2,893	1,366

As explained in Note 1(e) the practice of maintaining a general provision ceased during the year in recognition of the maturing of the portfolio.

The group has a 32% interest in the shares (carrying 59% of the voting rights) in, and a loan of £2,450,000 to, one of its borrowers, Northern Feather (Home Furnishings) Limited, a company incorporated in the United Kingdom and registered in England and Wales. The main activity of the company is the manufacture of natural and synthetic duvets, pillows and other bedlinen. The results of the company have not been incorporated into these accounts on the basis that this interest was effectively acquired as a result of enforcement of security and control is intended to be temporary.

12 Investments

	Group 1994 £000	Group 1993 £000	Company 1994 £000	Company 1993 £000
Shares in group companies at cost	–	–	9,014	9,014
Other investments				
Redeemable preference shares (unlisted)	5,246	2,881	1,429	798
Loan stock	–	467	–	–
Equity shares (unlisted)	481	711	–	–
Equity shares (listed)	64	–	–	–
	5,791	4,059	1,429	798
Less: General provision	–	(121)	–	(24)
	5,791	3,938	1,429	774
Total	5,791	3,938	10,443	9,788

The listed equity shares are listed on the London Stock Exchange and at 31 January 1994 had a market value of £6,640,000.

Additional information in respect of investments for which there have been movements during the year are as follows:

	Group £000	Company £000
Other investments at cost		
Balance at 1 February 1993	4,059	798
Net additions	4,641	631
Realisations	(3,017)	–
Capitalised interest	71	–
Currency movement on foreign loans	37	–
Balance at 31 January 1994	5,791	1,429
General provision		
Balance at 1 February 1993	121	24
Released to profit and loss account	(121)	(24)
Balance at 31 January 1994	–	–

As explained in Note 1(e) the practice of maintaining a general provision ceased during the year in recognition of the maturing of the portfolio.

13 Debtors

	Group 1994 £000	Group 1993 £000	Company 1994 £000	Company 1993 £000
Tax recoverable	305	–	397	–
Amount owed to group company	–	–	–	(153)
Advance corporation tax recoverable	450	720	450	720
Other debtors	1,202	12,101	171	12,101
Prepayments and accrued income	4,916	4,395	3,405	3,188
	6,873	17,216	4,423	15,856

Other debtors include £940,000 (1993 – £11,266,000) in respect of realisations completed in the year, but for which proceeds were not received until the following year. Prepayments and accrued income include £762,000 (1993 – £858,000) which is receivable after more than one year. Advance corporation tax is recoverable after one year.

14 Loans and investments held as current assets

	Group 1994 £000	Group 1993 £000	Company 1994 £000	Company 1993 £000
Loans held for syndication	–	6,823	–	6,823
Listed investments	–	1,420	–	1,420
	–	8,243	–	8,243

The cost of listed investments held as current assets at 31 January 1994 amounted to nil (1993 – £3,000).

15 Called-up share capital

	1994 £000	1993 £000
Authorised		
4,000,000 ordinary shares of 2.5 pence	100	100
7,600,000 convertible ordinary shares of 25 pence	1,900	1,900
30,000,000 preference shares of £1	30,000	30,000
	32,000	32,000
Allotted, called-up and fully paid		
4,000,000 ordinary shares of 2.5 pence	100	100
7,600,000 convertible ordinary shares of 25 pence	1,900	1,900
	2,000	2,000
Allotted, called-up and part paid		
30,000,000 preference shares of £1 (60 pence paid – (1993 – 60 pence paid)	18,000	18,000
	20,000	20,000

16 Profit and loss account

	[illegible]	[illegible]
Balance at 1 February 1993	3,829	8,053
Profit for the year	9,574	4,387
Balance at 31 January 1994	13,403	12,440

£1,669,000 (1993 – £1,466,000) of the retained earnings of the group are currently regarded as non-distributable.

17 Creditors: amounts falling due within one year

	Group		Company	
	1994 £000	1993 £000	1994 £000	1993 £000
Trade creditors	10	245	10	245
Bank overdraft	2,910	281	2,910	281
Accruals	1,944	2,337	1,944	1,869
Dividends proposed	1,800	1,260	1,800	1,260
Corporation tax	–	1,224	–	1,294
	6,664	5,347	6,664	4,949

The bank overdraft is secured by a floating charge over the assets of the group.

18 Creditors: amounts falling due after one year

	Group		Company	
	1994 £000	1993 £000	1994 £000	1993 £000
Bank loans	99,491	132,722	99,491	132,722
Other	467	1,668	467	1,668
	99,958	134,390	99,958	134,390

The bank loans and overdraft are secured by a floating charge over the assets of the group.

19 Provisions for liabilities and charges

	Group		Company	
	1994 £000	1993 £000	1994 £000	1993 £000
Deferred taxation				
on accrued income	874	780	–	–
on currency movements	100	–	–	–
on specific provision	(504)	(1,551)	–	–
	470	(771)	–	–

	Group	Company
Balance at 1 February 1993	(771)	–
Current year charge	849	–
Adjustment in respect of prior year	392	–
Balance at 31 January 1994	470	–

Full provision is made for deferred tax.

20 Net cash inflow from operating activities

	1994 £000	1993 £000
Income before provisions and taxation	17,827	10,712
Decrease/(increase) in accrued income	162	(1,472)
Increase/(decrease) in accrued interest expenses	101	(302)
Increase/(decrease) in other debtors/creditors	3,807	(2,506)
Amortisation of deep discount securities	(406)	(339)
Capitalisation of interest receivable	(1,761)	(417)
Net cash inflow from operating activities	19,730	5,676

21 Analysis of changes in cash and cash equivalents during the year

	£000
Balance at 1 February 1993	(229)
Net cash outflow	(986)
Realised foreign exchange translation	(49)
Balance at 31 January 1994	(1,264)

The balances for cash and cash equivalents are as follows:	1994 £000	1993 £000
Cash at bank and in hand	1,646	52
Bank overdraft	(2,910)	(281)
	(1,264)	(229)

22 Analysis of changes in financing during the year

	Share capital £000	Bank loans £000
Balance at 1 February 1993	20,000	132,722
Cash outflow from financing	–	(30,297)
Currency adjustment on foreign currency bank loans	–	(2,934)
Balance at 31 January 1994	20,000	99,491

23 Contingent liabilities The Company has guaranteed a total of £1,033,000 in respect of liabilities incurred by its investee companies.

24 Capital commitments At 31 January 1994, the Group estimated that it had contractual obligations to provide further funding of £2,367,000 (1993 – £9,070,000).

25 Subsidiary companies

Name	Country of incorporation	Portion of ordinary shares held
European Mezzanine Limited	United Kingdom	100%
Intermediate Capital B.V.	Netherlands	100%
Intermediate Capital Europe Limited	United Kingdom	100%
Intermediate Capital Finance Limited	United Kingdom	100%
Intermediate Capital International Limited	United Kingdom	100%
Intermediate Capital Investments Limited	United Kingdom	100%
Intermediate Capital Limited	United Kingdom	100%
Intermediate Capital Managers Limited	United Kingdom	100%
International Mezzanine Limited	United Kingdom	100%
JOG Partners Limited	United Kingdom	100%
Mezzanine Capital Investments Limited	United Kingdom	100%
Mezzanine Capital Managers Limited	United Kingdom	100%

All the above companies are finance and investment companies which are registered in England and Wales except for Intermediate Capital B.V. which is registered in the Netherlands.

Officers and Advisers

Chairman C M Stuart

Executive Directors
T H Bartlam
J-L Brousse de Gersigny
A D Jackson
J R B Odgers

Non-executive Directors
J D Anderson
T R Attwood
P Boris
W H Guest
J McGrane
J J Nelson
R A Padgett
H Takenaka
H Talerman

Secretary
J R B Odgers

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